

Message Text

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42

ACTION NEA-16

INFO OCT-01 ISO-00 FEA-02 EB-11 COME-00 INT-08 AID-20

IGA-02 OPIC-12 CIEP-02 SP-03 CIAE-00 DODE-00 INR-10

NSAE-00 PA-04 RSC-01 USIA-15 PRS-01 DRC-01 /109 W

----- 060089

R 170825Z MAY 74

FM AHFONSUL KARACHI

TO SECSTATE WASHDC 8110

AMEMBASSY ISLAMABAD

INFO AMCONSUL LAHORE

LIMITED OFFICIAL USE KARACHI 1118

E.O. 11652: N/A

TAGS: ENRG, PK

SUBJECT: PAKISTAN REFINERY LTD (PRL) FINANCIAL DIFFICULTIES

1. CHARLES ROSE, GEN'L MGR ESSO EASTERN, AND EARL SANDERS, GEN'L MGR CALTEX PAKISTAN, CALLED ON ME THIS MORNING TO SAY THAT BOARD OF PRL (60 PERCENT OWNED BY ESSO, CALTEX, BURMA AND SHELL) HAD TAKEN DECISION NOT TO INCREASE GROWING INDEBTEDNESS BEYOND PRESENT LEVEL OF \$11 MILLION. ON BASIS THIS DECISION REFINERY MANAGEMENT WILL SEND TELEGRAM AT ONCE TO GOP MINISTRY FUEL, POWER AND NATURAL RESOURCES STATING PRL "NO LONGER HAS LIQUIDITY TO MEET FUTURE COMMITMENTS."

2. ROSE AND SANDERS STATED PRL HAD BEEN GOING INTO DEBT, AS RESULT OF CRUDE OIL PRICE INCRYSSES, AT RATE OF \$6 MILLION PER MONTH. PRICE INCREASE FHS DIESEL FUEL AND GASOLINE ALLOWED BY GOP ON MAY 11 HAD REDUCED LOSS TO "ONLY" \$2 MILLION PER MONTH. REFINERY DZMT LIMIT HAD HISTORICALLY BEEN SET AT LEVEL OF \$6 MILLION UNTIL LAST ANNUAL MEETING WHEN LIMIT RAISED TO \$16 MILLION,
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"PROVIDED BOARD CONVINCED OF PROFITABILITY AND LIQUIDITY

OF COMPANY." BOARD IN MEETING FEW DAYS AGO MADE
DECISION, ON BASIS INADEQUATE PRICE INCREASE ALLOWED BY
GOP, TW THEY IN FACT NOT CONVINCED OF PROFITABILITY/
LIQUIDITY OF COMPANY AND, THEREFORE, HAVE MADE
ADDITIONAL DECISION TO LOVIT PRL DEBTS TO PRESENT LEVEL
OF \$11 MILLION.

3. ROSE AND SANDERS EMPHASIZE GJL NOT REFUSING TO
IMPORT
ADDITIONAL CRUDE BUT SIMPLY DOES NOT HAVE FUNDS
TO PAY FOR SUCH IMPORTS WHICH ARE PURCHASED ON L/C
BASIS. THIS ACTION WILL HAVE RESULT, HOWEVER, OF
BRINGING CRUDE IMPORTS AND, THEREFORE, OPERATIONS OF
PAKISTAN'S MAJOR OIL REFINERY TO HALT WITHIN NEXT MONTH
OR TWO. SINCE SUCH AN EVENT WOULD BE CLEARLY UNACCEPTABLE
TO GOP, ROSE AND SANDERS BELIEVE DECISION WILL
HAVE TO BE TAKEN RAPIDLY BY GOP EITHER TO AUTHORIZE
FURTHER INCREASE IN EXREFINERY PRICES SO THAT PRL CAN
AGAIN BECOME FINANCIALLY VIABLE OR TO TAKE OVER AND
NATIONALIZE REFINERY AND CONTINUE RUHCING AT LOSS, IF
GOP SO DESIRES. (EXREFINERY PRICE INCREASE, IF
AUTHORIZED, WOULD NOT RESULT IN ANY INCREASE IN RETAIL
PRICES BUT WOULD BE EFFECTED MERELY THROUGH REDUCTION
IN PRESENT "DEVELOPMENT SURCHARGE" ON REFINED PRODUCTS
WHICH, AS IN CASE FERTILIZER COMPANIES, IS LEVIED TO
CHANNEL DIFFERENCEBETWEEN LOW EXREFINERY PRICE AND
HIGH RETAIL PRICE INTO GOP COFFERS.

4. OIL REPS BELIEVE THAT ONE OF FIRST REACTIONS OF GOP
MAY BE TO COMPLAIN HASTILY TO EMBASSY CONCERNING PRL
BOARD DECISION NOT TOSWO FURTHER INTO DEBT, A DECISION
WHICH THEY STATE, IS FIRM AND IRREVOCABLE.

COMMENT: LACK OF ADEQUATE GOP RESPONSE TO PLIGHT
OF PRL, WHICH HAS PRECIPITATED PRL BOARD DECISION,
SEEMS, FROM VANTAGE POINT OF KARACHI, TO BE PART OF
GOP PATTERN OF GIVING WAY TO REAL REQUIREMENTS OF
FOREIGN FIRMS ONLY WHEN PROBLEMS REACHCRNRS PRO-
PORTIONS OR WHEN PRESSURES OF ONE SORT OR ANOTHER
BECOME VERY GREAT.

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BRYANT

NOTE BY OC/T: MESSAGE AS RECEIVED.

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Message Attributes

Automatic Decaptioning: X
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Draft Date: 17 MAY 1974
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Disposition Case Number: n/a
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Disposition Date: 28 MAY 2004
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